

Service Date September 12, 1972

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER OF the petition	)	UTILITY DIVISION
of the GREAT FALLS GAS COMPANY	)	
for authority to increase its	)	DOCKET NO. 6117
rates and charges for natural gas service.	)	ORDER NO. 4069
	)	
	)	

On October 19, 1971 the Great Falls Gas Company filed its petition with the Montana Public Service Commission for authority to increase rates and charges for natural gas service.

Following proper notice of a split hearing procedure, the first half of Docket No. 6117 was assigned for public hearing and held in the city council chambers of the Civic Center in the city of Great Falls, Montana, commencing at the hour of 10:00 a.m. (MST) on January 18, 1972. The second half of the docket was assigned for public hearing and held at the same time and place on February 15, 1972.

Appearances: For the Applicant

Carter Williams and Cresap S. McCracken,  
attorneys at law, P. O. Box 1645,  
Great Falls, MT 59401

Other Appearances

Lt. Col. Frank J. Dorsey;  
Dept. of the Army, Washington, D.C. 20310

For the Commission

William E. O'Leary, Administrator,  
Legal Division

William M. Johnson, Administrator,  
Public Utility Division

Before

Ernest C. Steel, Chairman  
Louis G. Boedecker, Commissioner  
Alfred C. Langley, Commissioner

By the Commission:

Rate Base

The valuation figures set forth below were submitted by the company for the valuation of the plant devoted to public service as of the end of the test year, December 31, 1972.

Reproduction Cost New (RCN)	\$9,601,506
Reproduction Cost New Depreciated (RCND)	8,248,335
Original Cost (OC)	5,287,872
Original Cost Depreciated (OCD)	3,337,394
Contributions for Extensions (CE)	28,827

The commission has reviewed these figures and the methods by which they were developed, in depth. The percent condition of RCND valuation is quite higher than the percent condition of the OCD valuation. The commission, as it has in previous cases, has brought the percent condition of the RCND valuation more in line with the percent condition of OCD valuation before establishing the fair value of the company's properties.

The company testified that it had not used plastic pipe and therefore in trending its plant costs had not given consideration to the reduced costs of using plastic pipe. The company cited certain government restrictions, which the commission has determined to be non-existent.

After considering all evidence presented at the hearing and in view of the above, the commission determines the present fair value of the company's properties actual used and useful for the convenience of the public, to be \$5,075,000 as of the end of the test year, December 31, 1972.

### Operating Results

The company showed earnings for the end of the test period under the existing rates to be \$185,642. This did not consider the increased cost of purchased gas resulting from Docket No. 6100 nor amortization of rate case expense.

The increased cost of gas resulting from Docket No. 6100 will be \$577,575 and the rate case expense amortization was projected at \$20,000. The company had included \$30,000 in operating expenses as a fee to Stone & Webster for professional services. The commission is of the opinion that advertising expenses projected were also excessive.

The commission has reduced the advertising expenses projected and the management contract expense projected, and finds that after the reductions and allowance for rate case expense and additional cost of purchased gas, that earnings of the company for the test year 1972 would be negative earnings of \$94,574 under the existing rates. Allowance for federal income tax and state corporation license tax were made in arriving at the loss figure of \$94,574.

### CONCLUSIONS

The commission is of the opinion that under the Price Commission guidelines that only imbedded cost of debt should be considered in determining whether an adjustment in the rate of return should be made. The company has not issued bonds since the last hearing. No evidence was introduced that any debt issues were planned. Therefore, the commission

concludes that the rate of return used in the last preceding Great Falls Gas Company docket No. 3304 of 6.4 percent should be used in this docket.

The present fair value of the company's properties has been determined to be \$5,075,000. Applying the rate of return of 6.4 percent to this rate base results in required earnings of \$324,800. As the commission has determined that operating results of the test year would result in a loss of \$94,574 in earnings under the existing rate, the additional earnings required to produce the required earnings of \$324,800 would be \$419,374.

The commission has used a conversion factor of 48.49 percent to determine that the required additional revenues would be \$864,866. This required additional revenue equates to a 19 percent increase of revenues received under the existing rate schedules. This is applied equally to all gas sold under the existing rates, that is, contract customers as well as general service customers.

Therefore, from the evidence and for the reasons stated above, the commission makes the following

#### FINDINGS OF FACT

1. That the Great Falls Gas Company is a public utility furnishing natural gas service in the city of Great Falls, Montana and vicinity, and is subject to the jurisdiction and authority of this commission.
2. That the present fair value of the company's properties actually used and useful for the convenience of the public will be \$5,075,000 as of December 31, 1972.
3. That earnings for the test year end December 31, 1972, under the existing rates and charges would be a negative \$94,574.

4. That negative earnings and a negative rate of return indicate that rate relief is needed.

5. That a rate of return of 6.4 percent for the company is a fair and reasonable rate of return.

6. That a rate of return of 6.4 percent taken in conjunction with a present fair value rate base of \$5,075,000 would result in required earnings of \$324,800.

7. That additional earnings required to produce \$324,800 in view of the above projected loss, would be \$419,374.

8. That a conversion factor of 48.49 percent may be used to allow for federal income taxes and state corporation license taxes, in determining required additional revenues.

9. That the increase approved is cost justified and does not reflect future inflationary expectations.

10. That the increase approved is the minimum required to assure continued adequate and safe services or to provide for necessary expansion to meet future requirements.

11. That the increase approved will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the company.

12. That the increase approved does not reflect labor costs in excess of those allowed by policies of the Price Commission.

13. That the increase approved takes into account expected and obtainable productivity gains.

14. That the commission has provided reasonable opportunity for participation by all interested parties or their representatives, in this proceeding.

15. That the rate schedule set forth hereinbelow is fair, just, reasonable and non-discriminatory and will, together with additional contract revenues, produce the necessary revenues to afford a fair rate of return on the present fair value of the company's properties as of December 31, 1972.

The commission concludes that the application of the Great Falls Gas Company for an increase in its rates and charges in this docket should be granted in part as hereinafter ordered.

### ORDER

NOW, THEREFORE, at a session of the Public Service Commission of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana on September 5, 1972, there being present Chairman Ernest C. Steel and Commissioners Louis G. Boedecker and Alfred C. Langley, there regularly came before the commission for final action the matters and things in Docket No. 6117, and the commission being fully advised in the premises;

IT IS ORDERED that the Great Falls Gas Company be and it hereby is authorized to file a schedule of rates and charges in conformity with the schedule of rates and charges set forth below.

### General Natural Gas Service

Available for: Residential, limited commercial and limited industrial service in all territory served by Great Falls Gas

Company with natural gas.

Base Rate:

First	1 MCF or less per month	-----	\$2.97
Next	99 MCF per month at	-----	0.881 per MCF
Next	200 MCF per month at	-----	0.642 per MCF
Next	700 MCF per month at	-----	0.500 per MCF
Next	4000 MCF per month at	-----	0.452 per MCF

Minimum Bill: \$2.97 per month which includes 1 MCF

Tax Adjustment Clause:

The company may increase the bill for natural gas service supplied under this schedule by an amount equal to the proportionate part of any taxes other than those in effect on November 1, 1972, subject to the prior approval of the Montana Public Service Commission.

Special Terms and Conditions:

(1) Customers using or requiring in excess of 5000 MCF per month may be served only after securing written consent of the company. If such consent is given service may be supplied under special contracts subject to the approval of the Montana Public Service Commission.

IT IS FURTHER ORDERED that the schedule of rates and charges in conformity with the above, after being filed with and approved by this commission, shall become effective on all meter readings on and after October 17, 1972.

IT IS FURTHER ORDERED that the increase for all contract rates shall be not less than 19 percent.

IT IS FURTHER ORDERED that a full true and correct copy of this order be sent forthwith by first class United States mail to the applicant and all appearances herein.

The foregoing order was adopted by the Public Service Commission of Montana, with Chairman Steel and Commissioner Langley voting yea and Commissioner Boedecker voting nay.

DONE IN OPEN SESSION at Helena, Montana, this 5<sup>th</sup> day of September, 1972.

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ERNEST C. STEEL, Chairman

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ALFRED C. LANGLEY, Commissioner

ATTEST:

PATRICIA SHEEHAN  
Secretary

(SEAL)



DISSENT OF LOUIS G. BOEDECKER

The major part of this increase is due to the increased cost of purchasing gas from The Montana Power Company.

In view of the fact that I dissented to the Montana Power order granting this increase, I hereby dissent from this order.

LOUIS G. BOEDECKER, Commissioner